Channeling Investment for Impact

Illustration by: Tim Gough

New rating system helps investors move beyond responsibility.

By Matt Krogh

Alleviating global poverty and stemming environmental deterioration are not small or easy problems, but a new network of investors is willing to put their money towards this mission. The Global Impact Investing Network (GIIN)–comprised of large institutional investors such as JPMorgan Chase, TIAA-CREF, Prudential, and Rockefeller Foundation — is working with B Lab to define a new asset class called 'impact investing.'

Why pursue investment capital for solving social and environmental problems? Simple: there isn't enough philanthropic and foreign aid capital in the world to address these problems. The $300 billion in U.S. charitable giving in 2007 is necessary but insufficient (and likely shrinking given the lag effects of the economic crisis), while foreign aid represents less than 1 percent of global gross domestic product.

"If you accept this, and you want to solve the world's problems, then you see that impact investing must be a part of the solution," says Antony Bugg-Levine, Managing Director at the Rockefeller Foundation and a GIIN member. "We do not believe that the market or impact investing can solve everything, but impact investing can be a powerful complement to philanthropic and government efforts to address social problems at a scale never before seen."

What will it take to move significant amounts of institutional capital from today's standard private investment portfolios to impact investments? Well, you can't invest for impact if you don't measure impact. Enter GIIRS, the Global Impact Investing Rating System. GIIRS is a new investor-facing impact rating system, based on the B Ratings System used by B Lab to certify B Corporations. Think Standard & Poor's ratings agency but for social and environmental impact.

Isn't this just another spin on SRI? Impact investments are direct investments in mostly private companies, projects and funds seeking to solve social and environmental problems, whereas Socially Responsible Investing (estimated at $2.7 trillion in 2007) is largely investment in screened public equity funds that avoid so-called 'sin stocks' or seek to influence corporate behavior. A Monitor Institute study estimates the size of the current impact investment market at $50 billion. With the right market infrastructure like GIIRS, Monitor estimates that impact investing would represent 1 percent of the total global investment market by 2019—that's $500 billion in capital used for direct social and environmental impact.

What do impact investors want?

Deciding where to allocate capital is not as simple as deciding where not to allocate capital.

A first step has been the adoption of reporting standards for social and environmental metrics. But these efforts, like the Global Reporting Initiative (GRI) or the new Rockefeller-supported Impact Reporting and Investment Standards (IRIS), fall short of what impact investors need. They need to know not only that everyone calculates metrics like carbon tonnage or defines terms such as "low income" the same way, but also how those reported metrics stack up against those from comparable companies and against a generally accepted set of benchmarks for low, medium and high impact investments.

Without a rating system sitting on top of the reporting standards, each company tells its own story in terms of sustainability and social impact, picking and choosing which metrics to report and failing to put them in any context.

Easier said than done. Everyone involved with GIIRS agrees that while necessary, impact assessment and comparability are still embryonic.

"The story of success is one that is hard to tell," says Preston D. Pinkett, III, vice president at Prudential. "An investment rating system that allows managers like us to talk about the impact we're having compared to others, in addition to the financial return and the risk, allows us the opportunity to round out the story of our work."

Bugg-Levine agrees, saying, "A standard with a ratings system can help hold the line on social impact and differentiate those who are truly making a difference from those who are simply telling a story."

GIIR-ing up for impact

In the current economic meltdown, investors seem more open to new ideas. "What is true is that on the margins the crisis has shaken people's confidence in the ideologies of the investment industry of the last three decades, creating an opening for a more objective and fact-based conversation," says Bugg-Levine.

With that opening, the GIIN hopes that a standardized assessment framework such as GIIRS will appeal to institutional investors with the means to move large sums of private equity capital.

According to Sara Olsen from SVT Group, which was hired to do some of the original research leading to GIIRS, if the GIIN succeeds in encouraging the use of the GIIRS rating system, they could reach people who previously hadn't considered either SRI or impact investing.

"People may be able to put [impact investing] into a completely separate box from SRI," she says. "Giving social impact a rating feels very different from calling something socially responsible." And the result would be to increase the amount of money going into impact investing without competing with established SRI funds.

According to Pinkett, "There is an opportunity for this (GIIRS) to be a game changer. If it is, it will change the way people think about how to make investment decisions, and that would be monumental."